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SURPLUS REVENUE.

PUBLIC finance rarely becomes generally attractive until there is danger in the air. The dull burden of routine finance is borne by a few amongst us, and so long as taxes are levied, collected, and paid in the ordinary way, so long are we content to leave the care of administration to those directly responsible, the paid officials. But there are times when to every citizen the conduct of finance becomes of absorbing interest. In war time, the intimate relation between the soldier and his base of supply divides the popular interest between the camp and the treasury. In peace, we have our crises caused by speculation and bad administration, and the effort is then to straighten out our money matters with all speed, pocketing our losses with what philosophy we may. But there is a financial trouble so insidious in its working, indeed so often tricking itself out in the garb of prosperity, that its uprooting demands a virtue and intelligence wholly different from the fervent patriotism on which we rely in war or the quick self-interest in panic. It is this rare trouble, the trouble of superfluity, which the citizen is now called upon to combat.

To some a surplus is a thing to be proud of; they are at a loss to see why an overflowing treasury is a signal of distress, or how it is possible for a stable, popular government to have too much money. They view a surplus as they would the fabled sands of the Pactolus, and if the gold in the treasury were magic gold we might welcome its overflow and ask no questions; but as the treasury creates no wealth, as every dollar in it is drawn from the pockets of the people, it follows that all excess over and above the just needs of the government is the product of unjust taxation.

The conception of government funds as so much treasure has long since faded away with the conception of government itself as a machine regulating the affairs of the many for the benefit

of the few. In former times money was drawn to the treasury in the shape of exactions, benevolences, blackmail, foreign spoil. The irregular flow of the stream of tribute made the impounding of its infrequent surplus a matter of necessity, and the strength of the government was largely measured by the size of its hoard. The treasury is no longer the repository of treasure, but the channel for the distribution of the proceeds of taxation. The strong box is open at both ends. The state now relies on a comprehensive system of taxation which will bring to the public needs a yearly revenue; and the ideal revenue is one so elastic that it rises and falls, not coincident with—that is impossible—but in close relation to those needs.

A thing to be desired in any system of taxation is that taxes be levied and expended within districts widening according to the nature of the expenditure; so that each object of appropriation, whether it be the making of a country road or the building of a war-ship, is controlled by the community the nearest in interest to the work, the most competent to secure its proper construction. We in the United States are fortunate in having this admirable division of the labor of taxation established in our constitutional polity. We may and often do err in the expenditure of public moneys; but so long as we stick to the spirit of our constitution we cannot commit the capital error of confounding local with general responsibilities to the weakening of both.

In the administration of finance the revenue should not rise above the expenditure. If substantial equality cannot be maintained, a slight deficit is preferable to a marked excess, since the latter subjects the government to the reproach of an unjust tax gatherer. Yet a surplus is sometimes taken as a sign of government wealth; in truth it is rather a sign of unthrift on the part of the taxpayer. This notion of government wealth is in itself the parent of misconceptions which go to the root of our democratic institutions. Our government possesses no wealth which can be applied to general public wants, and this not alone in the abstract sense that in a democratic state as the government itself is of the people so are its possessions, but in the fact that the

property to which the government holds title is not a source of net income. The government owns ships, buildings, material, *etc.*, practically inconvertible. It holds the title to a vast domain which as a financial investment has proved a failure, since the cost of its acquisition and development already exceeds the receipts from sales by about \$126,000,000. This domain has been at times treated as a source of general revenue; again, as the spoil of corporations; but the true policy is to develop the land for its highest destination, its purchase at low, even nominal prices, by actual settlers who in time build up self-supporting states.

But if the government does not possess available wealth, it commands that most fruitful of all resources, the ability and willingness of a free people to tax themselves. This source of cash and credit represents the real capital of the United States. That the amount of this capital is not ascertained should not blind us to the fact that it is not unlimited; and while the likelihood of its exhaustion or even its serious impairment is too remote to be considered, yet in time of peace there should ever be a resolution to keep the demands on the capital far under the ability and willingness of the taxpayer. It is a foolish policy which continually demands what the capital will bear; and he who complacently boasts of an extra weight of taxation patiently borne, a foolish statesman. The true measure of taxation is not what the people can, but what they ought to bear.

Now every tax must be scrutinized as to its mode of collection, its rate, its subject, and the purpose to which it is applied. A tax satisfactory in all these respects is in no sense a draft on capital; the withdrawal of private moneys, however great, being for the proper maintenance, perhaps the salvation, of the state. When it offends in any of the first three points, its effect ranges from popular annoyance to real oppression. The tax is inexpedient, it is wrongful, but it is not yet wholly useless. When, however, a tax is imposed or retained for a purpose unnecessary or, worse still, made to order, nor ease of collection, nor lowness of rate, nor fitness of subject can save it from condemnation.

To spend that you may tax is the high crime of finance, a crime in no wise mitigated by popular acquiescence. Suppose a tax is imposed or retained for a purpose which though popular is really unnecessary. The willingness of the people to put their hands in their pockets argues well for the propriety of this tax. But in a few years an emergency occurs, war or its apprehension; the revenues must be speedily heavily increased; the resources of the nation are strained to their uttermost; then it is that the fancy tax rises to plague its sponsors or, worse still, its heirs, and the burdens of war-financiering are weighted by the improvident pledging of a part of the national capital. That the pledge once given would be revoked is possible though not probable; a service pension once established, a subsidy once pledged to the states, would be as firmly fixed in our annual budgets as are the salaries of congressmen. For permanent appropriations create permanent necessities. If government devotes money to new uses, it soon makes them indispensable; if it steps in to the assistance of existing agencies, the old channels of supply dry up or are diverted elsewhere.

II.

An excess of revenue over ordinary expenditure, including interest, has been an occurrence not unusual in the course of our financial administration; and it might surprise those who boldly assert a surplus to be an infallible sign of prosperity to learn that in the earliest years of our government, with a country undeveloped, with the heavy load of the revolutionary debt, our public stocks below par, our finances managed experimentally, the annual budgets showed in several instances large surpluses. In 1817 and in several years up to 1835 surpluses again appeared.

Of the total receipts of the government to 1835, excluding of course loans, nearly ninety per cent was derived from custom duties, the balance being made up from public lands, internal revenue and direct taxes, two-thirds of the sum of these taxes being collected in the years 1814-17.

The first tariff act was protective in name, and its successors increasingly protective in principle; yet with all the growing

severity of the tariff fight there was never a direct issue involving the maintenance of the protective principle by an enforced expenditure of surplus receipts. Circumstances prevented the attainment of this extreme position. While the receipts in excess of ordinary expenditures were in one sense surpluses, they were not, either at this period or before, condemned to imprisonment in the treasury, but were mainly applied to the reduction of the public debt. Thus they never caused stringency, they were ever applied to a worthy object.

Nor was there absent the notion that a surplus might be beneficially applied to an extended system of internal improvements or even divided among the states. As a matter of fact, internal improvements figured but little in our budgets up to the time of Jackson, and Monroe even denied their constitutionality. The idea of distribution lay dormant for some years, and became lively only when the approaching satisfaction of the public debt became manifest. Schemes for distribution, both with and without a constitutional amendment, grew more and more pronounced, until the payment of the debt in 1835, coinciding with phenomenal receipts from public lands, made possible the so-called distribution of 1837.

Up to this time the surplus over ordinary expenditure had been generally applied to the purchase or call of public stocks ; but this surplus found a government without a creditor. There was an unwillingness to alter custom duties and thereby disturb the compromise tariff of 1833, a tariff intended to gradually reduce duties until at the end of eight years the equilibrium between income and outgo should be established. Various plans for the devotion of the money to objects of federal importance were proposed, notably that of Senator Benton, who advocated the cause of coast fortification ; but the surplus money possessed a magnetic attraction too strong to be overcome, and the states pounced upon it and carried it off.

Turning to the present surplus, we find that in each of the past twenty years a high but remunerative tariff and a large internal revenue tax have yielded an income out of which, after paying ordinary expenses, interest, and instalments on account

of the sinking fund, there has each year remained a surplus. These surpluses range in amount from \$2,000,000 in 1874 to \$145,000,000 in 1882 and aggregate about \$1,500,000,000. Until recently the surplus went to the satisfaction of a large part of the interest-bearing debt, acting as an extraordinary adjunct to the sinking fund. But the further application of the surplus to debt reduction seems to be, for the present at least, inexpedient. The national banking system gives us a currency of capital excellence, and the basis of this currency is the government bond. Now to strike down this currency until we obtain one fully as good would be impolitic, even in face of the general principle that the best thing to do with a debt is to pay it. Until a stable and convenient medium of universal currency be established, the country can better afford to pay the debt gradually through the sinking fund than run the risk of a disordered, perhaps discredited, currency. Further, the funding of a large part of the debt at a low rate of interest, its extension to 1907, and the demand for bonds for banking and investment purposes, have operated at once to reduce the annual interest charge and raise the market price of the bonds. Thus the government, to escape a light interest, must purchase its bonds at a heavy premium.

The present surplus differs essentially from those preceding 1835 and that of 1837. The earlier surpluses were mere account-book balances, in excess of ordinary expenditure but not of the real necessities of the government as evinced in its indebtedness, an indebtedness much disorganized and largely due to foreign creditors. The surplus of 1837 was largely the result of a speculative craze for western lands, the government having in the years 1834-6 received purchase money to the amount of \$44,000,000, a sum about equalling the proceeds of all previous sales, and making nearly one-half of the net revenue for the years named. The people of that day may perhaps be pardoned for treating this enormous, unforeseen deluge of money as manna, but we can amuse ourselves with no such magic. We know that our surplus is derived from taxes paid out of our own pockets, that in eating it up we simply feed upon ourselves.

Nor is the present surplus a passing one like that of 1837. With our present revenue system and objects of expenditure, each annual accounting will show an excess of income. To meet the question squarely we must either decrease our income or increase our expenditure.

III.

What is a surplus revenue? Evidently an excess of income over expenditure, which may be wiped out by reduction of revenue or increase of appropriations. If the excess be marked, the withdrawal of money from circulation will soon compel the adoption of makeshifts to avert financial stringency. But any excess over economical constitutional expenditure embodies the worst feature of a surplus, the improvident taking of money from the taxpayer. While the surplus stands on the books, it warns against waste; when it is credited to improper appropriations, the warning is unheeded. Apart from a few pleasantries about the easy handling of a surplus, there is no difference of opinion as to the danger of a surplus in the treasury and the necessity for its speedy disappearance; but in the means to the end the difference is the discord between sound finance and rabid speculation, between good government and bad government. One school of statesmen profess no doubt of the only way to deal with a surplus: Spend it. This counsel has apparently the merit of simplicity, which, together with a seeming spirit of liberality, makes it doubly engaging. In reality it is neither simple nor liberal. It is not simple. It necessitates the enforced creation or adoption of objects of federal aid. It says to the taxpayer: You pay more than the government can use, therefore you must invent such new wants as will enable the government to dispose of your now useless contributions. You must, under penalty of a tight money market, relieve the government from the stigma of miserliness by becoming a spendthrift. It is not liberal. It would almost seem that certain politicians rest under a delusion which transmutes the proceeds of taxation into the gifts of a grateful people, a sort of votive offering reverentially laid upon the altar of patriotism to

be doled out or lavished, according to the irresponsible will of the state. Now people pay taxes grumblingly, dutifully, cheerfully; but the man is rarely found who pays because he loves to pay. While there is no enforceable contract between the taxpayer and the state, the whole system of finance, nay of social order, is grounded on the assumption that taxation is imposed only for the reasonable, economical wants of the people. Through the influence of this delusion, expenditures are conceived which, under the guise of charity or patriotism, are in fact misappropriations of trust funds. Under a régime where exactions are levied for the benefit of the few, an occasional largess to the many may savor of liberality; the government gives where it might retain. In a popular government of enumerated powers, the spending of money on any principle other than that of reasonable necessity is robbing Peter to pay Paul.

Under the stimulus of this benignant counsel, charitable desires are taking on the semblance of public necessities, real necessities are expanding beyond all recognition. The natural wish for the better education of the negro has developed into the Blair bill. The just pensioning of invalid soldiers has broadened into the service pension scheme.

All extravagant, speculative, and corrupt interests are galvanized into vigorous life through the influence of the surplus. Promoters of all sorts of schemes, beggars for the widening of rivulets, the deepening of rills, hang about the treasury in the hope that the increasing pressure of idle dollars must soon burst out the doors. Nor is the treasury the Mecca of the needy alone. But the other day the Empire state, which in her struggling youth built the Erie canal, was importuned, and by sons of her own, to beg for Federal aid towards its enlargement. Happily the temptation was repulsed by a round majority, and the state still stands erect, her hands in her own pockets.

If the policy of extravagance be adopted, it will be done in cold blood. The indifference with which the corrupt and wasteful management of the reconstruction period was viewed is perhaps explainable by the fact that the popular thought was

focussed elsewhere. But since the fact of a restored and strengthened Union is now accepted, save by that band of politicians who desire the war to last forever that they may exploit a pinchbeck patriotism and save their occupations, the questions that now press upon us are the passionless practical problems of every-day life. If we are wasteful now it will be through deliberation not preoccupation.

IV.

Some of the schemes which would effect a reduction of the surplus, and for that reason obtain an advocacy outweighing that due to their own attractions, are yet in the air. Several, however, have taken such definite, threatening shape as to warrant close attention. Of the various propositions looking to the enlargement of the pension list, the most popular is the most radical — the service pension scheme.

The true basis of all pension legislation is this: when a man enlists and takes the risks of battle, exposure, and privation, he justly expects to be insured against loss occurring through incapacity resulting from service, or if death should cut him off, that his family should be to some extent compensated. Thus far the aid is in no sense a charity, for it may be said to be an understood, indeed it has been at times an expressed, condition in the contract of enlistment. But when one has passed through service in safety and health, his claim to a pension must be either in the nature of damages for business loss incurred through absence, or simply as extra pay for patriotism. The former claim may be easily disposed of. If the soldier were a poor man the monthly pay, to say nothing of the high bounty paid when men were most needed, rendered his financial position no whit the worse, and in many cases better. If he were rich and it was a question between business or service, he could have sent a substitute. With regard to the latter claim, it should be sufficient to say that under a popular government the cause of national defense should be nearest to the hearts, furthest from the pockets of the citizens; that while it is right to pay for service, it is wrong to pension patriotism. It is true that after the

lapse of many years, when the presumption is that the survivors of war are incapacitated through age, the nation has shown its gratitude by extending the relief of a pension. In 1818 a pension was granted to each man who had served nine months in the revolutionary army and was in reduced circumstances. It was estimated that about \$160,000 would be the annual charge on this account, but the expenditure for the first year was nearly two millions, for the second nearly three. Over twenty-seven thousand claims were presented, representing about ten per cent of the whole number of men enlisted. One-third of the claimants were at once branded as impostors, and a strict requirement of proof of poverty forced out one-third of the remainder, so that but twelve thousand passed muster.

A service pension to the survivors of the war of 1812 was granted in 1878, and those whose familiarity with the laws of mortality had led them to estimate the probable number of claimants were astonished to see seven thousand survivors and twenty-four thousand widows enter their claims. The survivors of the Mexican war were allowed a service pension last year, forty years after service. Why should all precedent be violated in favor of the survivors of the late war by granting a service pension after the lapse of but little more than twenty years? The average age of the soldiers was twenty-six years, which would make that of the survivors about fifty, and it cannot be pretended that at this age the average man is incapable. Moreover, the cost of the scheme will not only wipe out the surplus, but in all probability create a heavy deficit. In 1882 the pension officials estimated that about one million survivors were not on the pension rolls, and in view of the fact that pension estimates are apt to be under the mark, it is safe to count on at least that number at the present time. Now if a pension of eight dollars a month, the amount allowed the survivors of 1812 and the Mexican war, were granted, the annual charge would be about one hundred millions. Since the adoption of the constitution nine hundred millions of dollars, about one-tenth of our net ordinary expenditures, have been credited to pensions. We are not called upon to supplement this generosity by extravagance ;

to tax ourselves for the advancement of ambitious politicians whose object is not so much to pension veterans as voters.

The statistics of illiteracy in the Southern states, as published in the census of 1880, attracted instant and wide-spread attention. The fact that in many of these states nearly one-half of the voters could not read their ballots, a fact to all men of serious concern, so frightened a few that all considerations of law and propriety were overborne and the Blair bill was created. Now this bill, which would effect the distribution of \$77,000,000, chiefly among the Southern states, during a period of ten years, is in my judgment one of the most unconstitutional bills that ever passed a House of Congress. I am one of those who hold that the result of the war is the restoration of the old Union, not the creation of a new one; that the new amendments are not vague abstractions, but definite enactments; that when the constitution vindicated its supremacy, the clause relating to "the general welfare" had suffered no change, but stood forth clothed with its old interpretation. As we honor Hamilton as the advocate of the constitution and Marshall as its expounder, so must we honor Joseph Story as its commentator. Is it in order to quote Story, or is he superseded by Blair? Do legislators make their views of constitutional law square simply with their own prejudices or the wishes of their constituents? Story says:

If the clause "to pay the debts and provide for the common defense and general welfare of the United States" is construed to be an independent and substantive grant of power, it not only renders wholly unimportant and unnecessary the subsequent enumeration of specific powers; but it plainly extends far beyond them, and creates a general authority in Congress to pass all laws, which they may deem for the common defense and general welfare. Under such circumstances, the constitution would practically create an unlimited national government.¹

Yet the power to render Federal aid to state education could be derived only from that very interpretation of the clause in question which Story so strongly repels. The constitutional objection to the measure would be in itself sufficient to insure

¹ Commentaries, § 906.

its reprobation, were it not for the new canon of interpretation which consists in reading, not on, but between the lines of the constitution. This canon which substitutes elastic construction for the broad construction of the Federalist, which leaves blanks to be filled up according to the taste and fancy of the interpreter, has reduced the minds of many to a state of uncertainty as to the exact force and effect of the constitution, and left them open only to the argument of expediency.* Waiving then the question of law — Is it politic, is it right to lay Federal taxes for the support of the Southern schools? To narrow the question still further and avoid the selfish position as to the fairness of taxing the richer states to make up the deficiencies of the poorer — Does the Blair bill promise good results to the recipients of its bounty? It is impossible to discredit the rule that, as to individuals, so to states, self-help is worth far more than charity. The unaided step forward, taken hardly though it be, gives an earnest of future progress wholly lacking in the quick motion which follows a violent push. The charity of the state can rarely be applied with propriety unless its recipients are too weak to help themselves; and one of the most important, most delicate responsibilities of statesmanship is the determination in a given case whether hopeless distress or remediable misfortunes claim the aid of the state. Under which category comes the illiteracy of the South? There is without doubt a phase of the question so desperate as to admit of no palliative. The adult illiteracy must be accepted as a misfortune beyond the cure of even the wisest benevolence. Now the census of 1880 showed that, out of four million seven hundred and fifteen thousand illiterates of ten years of age and over, nearly three millions had passed the school age, so that the South could be fairly held responsible for the ignorance of seventeen hundred thousand persons. How has the responsibility been met? If indifference, shiftlessness or a begging spirit mark the attitude of

* [The editors find themselves so fully in accord with Mr. Randolph as far as the political and economic sides of his argument are concerned, that they regret the necessity of dissenting from his legal conclusions. They consider the Blair bill an extremely objectionable measure, but they cannot regard it as unconstitutional.]

the South, then might the plea be put forth for aid for those who cannot, will not help themselves. But the South is not indifferent. The Northern feeling of vague concern, caused by the perusal of tremendous statistics, is replaced at the South by that sober realization with which one views immediate personal perils. This realization has been followed by energetic action. The progress of education is notable, not only in view of the obstacles in the path, but in the actual advance made, for many of the Southern states now report a state of education fairly comparable with that existing in several New England states a quarter of a century ago. For a people handicapped at the start by slavery, later ruined by war, to be less than a generation behind New England communities in their common-school system is proof that powerful self-reliant forces are at work; and we of the North who, in the pride of our wealth and philanthropy, seek to tax ourselves for the supposed good of our neighbor should be mindful lest in striving to raise the ignorant by Act of Congress, we weaken the educated by relieving them of the duty of self-help.

There is another scheme for absorbing the surplus which has distinguished promoters. It is far more liberal than those already considered, and in its simple directness is positively child-like, being entirely dissociated from the moral and charitable aims which temper the education and pension plans. We are to rid ourselves of the surplus by throwing it to the states. A system of taxation kept up for the purpose of paying cash dividends is indeed a startling novelty in finance. It is suggested that after whiskey pays for fortifications it shall pay the taxes on land. There is no hint of the ratio of distribution among the states, whether in proportion to the value of real estate, or the quantity of whiskey consumed. Probably the latter, for then the scheme would not savor of a ruse on the part of a "dry" but thrifty Maine to profit by the thirst of a "wet" New York. It may be objected that this particular proposition is of no more serious import than its deceased relative, the proposal to pay the debt of West Virginia from the Federal treasury; yet the sentiment behind it is sufficiently widespread to deserve attention.

The idea of the distribution of revenue among the states is founded on honest misconception or sinister determination. Place to stupidity! Where is the constitutional warrant for a distribution law? If an amendment were proposed, what should be its purport? A distribution based on population, as evidenced by representation in Congress, would be evidently a mere excuse for the scattering of money without an intelligent thought as to its destination. Rich states and poor states, well-managed and ill-managed, would alike reap the benefit. If distribution were made according to the needs of the states, it is to be feared that few would yield the palm of misfortune or unthrift, but that, with money going begging, each would follow its interest by hiding its benefits and parading its burdens. If the surplus should be distributed on the basis of state contributions to the Federal treasury, the farce of paying out money as taxes to receive it later as alms would be soon hissed off the stage. From any point of view, a distribution must be unfair or unnecessary.

The experience of 1837 is worth the study of those who ignorantly rely upon it as a precedent. It had all the defects of a distribution save one: it was not a distribution but a deposit, and though practically lost still stands on the books as a sum reclaimable.

Does it seem that the practical importance of the question is exaggerated? Fifty millions of dollars may appear a small sum in an annual distribution when compared with the wealth, population and extent of this country; indeed there are several citizens whose fortunes are supposed to exceed it; yet it is about one-sixth of the ordinary expenditure of the Federal government, and more striking still is its relation to state revenues. If this amount were divided among the states on the basis of congressional representation, it could replace more than two-thirds of the gross sum now raised by state taxation. Nearly one-half of the states would receive as their quotas more than their tax levies now produce. It is obvious that so great and sudden an influx could not fail to have a decided effect upon state finances, upon state governments. It is but too probable

that the immediate result of a distribution would be in many instances a course of wasteful and corrupt expenditure; but, assuming these evils overcome and the states settled down to the orderly administration of the new revenue—How would they spend it? An economical management would demand the application of the revenue to the reduction of taxation. Now if it were proposed to destroy, in the states, that right of self-taxation which is the high mark of statehood, to dissolve that union of taxation and representation, as important to the well-being of the states as to the Federal government, the scheme would be rightly denounced as revolutionary. Yet if a state should apply the fruits of distribution to reduction of its taxes, the Federal authority would not only replace those taxes but to a great extent the power which imposed them. The state power thus restricted might soon lose its vigor and the economical state become dependent on the general government. Suppose, however, that a state with a just pride in its ability to minister to its own necessities chose to treat the new revenue as extra revenue. The states, if any, to which this course would commend itself, would naturally be those which by virtue of their wealth and character are already able to and do fulfil their duty to the citizens. Their necessities being thus satisfied, the new revenue would be likely to be devoted to luxuries, or at least to objects for which the states, if left to themselves, would not care, or perhaps dare, to lay taxes.

After necessities are provided for, further expenditure is apt to run on the line of public charity, of works undertaken for the sake of giving employment, in a word, on that paternal theory hitherto foreign to our ideas, the theory which substitutes state care for self-reliance.

And when all is done what good has been gained? The surplus is not reduced, it is merely parcelled out. Taxation is lightened but little, if at all, though by a juggler's trick its burden has been unfairly shifted. Worse than all, the states are dependent on the Federal government for necessities for which they themselves should pay, or luxuries to which they should never be tempted. To the valuable good of a general uniformity is sacrificed the priceless good of local responsibility.

They who, brooding over the evils of high taxation, of illiteracy, of poverty, seek to enact prosperity, are blind to the mission of this Federal government of ours. They who, trembling at the remembrance of a beaten confederacy, think to strengthen a perfect union by centralization, will do well to reflect that if the Union is ever to dissolve, it will be because a national government, having attempted the task of regulating the local affairs of widely distributed communities of diverse character and interests, crumbles under the weight of unfulfilled responsibilities.

But how should they be judged, who, not ignorant, but reckless of consequences, advocate schemes for the spending of public moneys, not for the sale of the objects, but solely for the purpose of keeping up taxes? Yet this thriftless, unpatriotic sentiment is the hotbed of the wasteful schemes which beset us on every side. The logic of protection is pushed to its farthest, boldest, yet weakest position, for it here violates the primary law of taxation. To tax for the sake of extravagant spending was and still is in certain realms a frequent blot on public administration; but for this commonwealth, this time has been reserved the suggestion of that grotesque blunder, to spend for the sake of extravagant taxing. It is no mere political experiment which is thus coolly proposed, one that if weighed and found wanting can be lightly cast aside. It is a new financial principle of dangerous attraction. Once get the idea fixed that a tax can become an institution so bound up with the fortunes of the country that it must be sustained, even at the price of economy, and the effect will outreach even the wide bounds of the present controversy.

I am well aware that there are protectionists who repel the plan of increasing expenditures to save customs duties and substitute a simpler and much less objectionable expedient. Their argument is that the surplus does not represent customs receipts, but internal revenue taxes; that the repeal of the latter would restore equilibrium. This position is straightforward and merits respectful consideration. Now it is true that internal taxes have ever been with us war taxes, while customs have

been, both in war and peace, the constant contributor to our treasury; but is it sensible to take a sentimental view of a plain business question and, substituting a name for a thing, decry a tax because it has heretofore aided us solely in war? It is true that internal taxes bear solely on home production; it is no less true that import duties bear wholly on home consumption, and that to an extent to be measured, not alone by the receipts from customs, but by the enhanced price paid for protected goods of home manufacture. It is more importantly true that the subjects of our present internal taxes are such as easily bear a great tax affording large returns; it cannot be pretended that the tax paid on imported or the bounty paid on domestic woollens is lighter than that paid on whiskey. We confound all rational difference between luxuries and necessities, or rather interchange the ideas conveyed by those terms, if we free whiskey and tax clothing. It is unnecessary to consider the whiskey tax with reference to its efficiency as a regulator of traffic and consumption, except to say that the argument that the states and not the Federal government should impose the tax will be pertinent when the states generally show a disposition to that course. Tried by sound rules of finance, the tax on luxuries, whiskey and tobacco, is lighter than the tax on necessities, clothing. But if the logic of finance points to a theoretical conclusion, the logic of circumstances attains a practical one. At the present writing there are not enough votes in Congress to pass a law abolishing the tax on liquors, and there is nothing to indicate a change of sentiment in this or the next Congress. It is possible, however, that the tax on tobacco will be in part repealed. Assuming then the tax on liquor retained, that on tobacco partly repealed, there will still be a heavy surplus which must be credited to customs, and to customs alone.

The sugar duties produced last year over \$50,000,000, and the coincidence of this sum with the probable annual surplus, the fact that domestic production supplies but one-eighth of the demand, and the prime necessity of the article itself have given rise to the suggestion that these duties be repealed. As sugar making is practically confined to Louisiana, and as Louisiana is a Demo-

cratic state, Republican protectionists have hitherto had the delicacy to refrain from a direct proposition for repeal, rightly conjecturing that the abandonment of the principle that "the injury of one is the concern of all" would be here ascribed to partisan motives. True, the suggestion has been sweetened by the vague hint of Federal bounties in lieu of duties, but the most expert prospector in the constitutional field would be driven to his wits' end to discover authority for the Federal government to become the financial backer of a sugar plantation.

In the present state of public opinion it is safe to say that a reduction of revenue by an enhancement of duties is well nigh impossible, though signs are not wanting of an attempt in that direction. A general scaling down of duties would probably increase revenue, so that course is barred. The true way out is so to combine an enlargement of the free list with a reduction of certain duties, that the prime object of revenue reduction will be attained with benefit rather than detriment to industrial interests.

The evident policy of the high protectionists is to so twist the question at issue that it must needs be argued out on the lines of a controversy between protection and free trade. Now theoretical free trade, the total abolition of all revenues from imports, can never be practicable until people choose to pay their public expenses through direct rather than indirect taxation. Nor is practical free trade, as evidenced in its great exemplar the British revenue system, much less foreign to our ideas of public economy.

The leading items of British revenue are (1886-7) as follows:

Excise	\$126,534,000
Income tax.	80,754,000
Stamp duties	58,046,000
Post office (net)	14,663,000
Customs.	98,822,000

The receipts from customs may be thus classified :

Tobacco	\$46,069,000
Wines, liquors, <i>etc.</i>	26,158,000
Tea and coffee	22,910,000
Fruits	2,323,000

These articles and the few others taxed are luxuries or at least of voluntary consumption, and the tariff is a true free-trade tariff, one for revenue without incidental protection.

If the attempt were made to reduce our tariff to the free-trade basis, the first stumbling block would be the duty on tea and coffee, and it is unlikely that we would support the taxation of these articles. Our gross revenue from imported liquors, tobacco and fruits is (1887) \$20,740,000. The budget for the fiscal year ending June 30, 1889, is thus estimated:

RECEIPTS.

Customs	\$228,000,000	
Internal revenue	120,000,000	
Sales of public lands	10,000,000	
Other sources	25,000,000	
		\$383,000,000

EXPENDITURES.

Including sinking fund and interest	326,530,000
<i>Estimated surplus</i>	\$56,469,000

Now if, meanwhile, we cut down our list of dutiable imports to conform to the English system, the estimate would then stand:

Receipts (customs \$20,740,000)	\$275,740,000
Expenditures, say	326,530,000
<i>Apparent deficit</i>	\$150,790,000

How would this deficit be met? To return to our English example — Would an income tax be tolerated in this country at this time? As for stamp duties, petty clogs on private business transactions, such as the execution of deeds, the drawing of notes, bills and the like, would these duties, a nuisance in war time, find favor in peace? Our postal service is not managed for revenue, nor can it be so long as we continue the policy of affording cheap postage in a country so vast, so sparsely populated. The establishment in this country of anything like the English revenue system is barred alike by the traditions of the past, the interests of the present. Whatever be the advantages

of that system we cannot now afford to pay the price at which they are quoted. Our revenue must be mainly drawn from a tariff which of necessity affords an incidental protection.

There is no issue joined between protection and free trade. Indeed, the controversy in which we are now engaged is, on one side, of a broader scope than a tariff question affords. The issue, to which that between high protection and a tariff for revenue with incidental protection is subordinate, is between protection and economy — dogma against principle. Protection is now to be judged, not merely by its own merits or demerits, but by the vice of its ally, extravagance.

There are those who through ignorance or interest have the hardihood to set up protection as the pillar of the state; and whatever virtue there be in consistent dullness and selfishness, it shall remain in them unassailed; but from that great body of citizens which has heretofore supported the protective principle either because of its establishment, or for more intelligent reasons, this question demands its answer: Is not high protection too dear at the price of economy?

The bold plea for the sanctity of the private profits with which protection blesses its beneficiaries is worthless. Somewhat the same claim, couched in an appeal for vested interests, is valid only so far as fair play demands that such interests should receive reasonable warning of any change, that they may be adapted to new conditions; beyond that, the vested interests of the taxpayer in economical administration must prevail.

The disposition of the large surplus already accumulated is in the hands of the present Congress. Whether its members fail in their duty by frittering it away, compromise in their duty by authorizing its appropriation to occasional bond purchases, or do their duty by devoting it to a cause of national importance, such as the defense of our coasts, their action, at its best or worst, will be but the clever or clumsy handling of a temporary affair.

We have gone beyond the fact of the present surplus and are now concerned with future administration. The admitted evil of a continuing surplus will not cure itself nor will it yield to

administrative remedies ; legislation and legislation alone can master it. This legislation must either prevent a surplus by reducing taxation, largely through the remission and reduction of import duties, or attempt to give it the semblance of legitimate revenue by appropriating it to uses more or less illegitimate. A change in policy, necessary now, will be soon imperative. The question for the citizens to answer is whether the change shall go to the root of things and involve the maintenance of economy, if not the relations of the states to the Federal government ; or whether it shall be an alteration in financial policy, an alteration not without some local temporary embarrassments, perhaps, but of general permanent benefit.

CARMAN F. RANDOLPH.